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August 1, 2002

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

**Re: Initial Comments in Investigation by the Department of Telecommunications
and Energy on its own Motion into Distributed Generation, D.T.E. 02-38**

Dear Secretary Cottrell,

On June 13, 2002, the Department of Telecommunications and Energy ("Department") opened an investigation into distributed generation in Massachusetts. The Department stated that it will focus on three issues in this initial phase of its investigation: (1) interconnection standards; (2) standby or back-up rates and (3) the role of distributed generation in distribution company resource planning. The investigation will determine whether the current interconnection standards and procedures act as a barrier to the installation of distributed generation, and whether the Department should establish uniform technical interconnection standards or adopt the Institute of Electrical and Electronic Engineers' (IEEE) standards or standards adopted by other states. The investigation will also examine the method for calculating the standby or back-up rates associated with installation of distributed generation, in particular whether other states have established back-up rate policies that may be appropriate to adopt in Massachusetts. Finally, the Department will look at what steps distribution companies should take to identify areas where distributed generation would be a lower-cost alternative to distribution system upgrades and additions and what steps the distribution companies should take to encourage the installation of cost-effective distributed generation in their service territories. Distributed Generation NOI, pp. 1, 2.

The Attorney General commends the Department for its recognition of the potential role of distributed generation in reducing the demand on the distribution system. The Legislature clearly contemplated a role for distributed generation in the Electric Restructuring Act of 1997 ("Act") and, although it has been slow to develop, it is an important component of a restructured electricity market. Congestion costs dramatically affect the cost of electricity and those costs are passed through to customers. With the anticipated implementation of locational marginal pricing by the Federal Energy Regulatory Commission ("FERC"), some customers may see a dramatic increase in the cost of electricity, depending upon where they are located. Measures that reduce the cost of congestion may help to mitigate the adverse impacts of locational marginal pricing. Distributed generation provides an opportunity to reduce congestion and to lower congestion-

based prices in load pockets in Massachusetts. Constrained areas, such as the Boston metropolitan area, could benefit substantially from an increasingly distributed generation system, provided that the proper standards are in place to ensure equitable treatment of all players.

The best/most efficient way to address the technical aspects of distributed generation implementation, such as interconnection standards and standby-rates, as well as other regulatory or competitive barriers that may exist and which may inhibit the widespread use of distributed generation, would be through a collaborative effort by interested parties. The Department should give a Distributed Generation Collaborative the responsibility for developing recommendations to the Department on the technical questions posed in the NOI. The Department should then integrate the report of the Distributed Generation Collaborative into the creation of pilot programs of varying size to facilitate data collection and to better respond to the NOI. Based on the results of the pilot programs, the Department will then be in a better position to understand how distributed generation can fit into a distribution company's resource plan. The pilot programs approved by the Department should include projects designed to benefit different rate classes in each distribution company service territory.

The Attorney General also recognizes the important efforts of the Massachusetts Renewable Energy Trust ("Trust") to facilitate the implementation of renewable distributed generation throughout the Commonwealth.¹ We support the Trust's offer to establish a collaborative process, and recommend that the Distributed Generation Collaborative initiated by the Department should be integrated with the efforts of the Trust.

The Attorney General looks forward to working with the Department in this proceeding.

Respectfully submitted,

Joseph W. Rogers
Judith Laster
Assistant Attorneys General

cc: Service List

¹ On May 2, 2002, the Trust also opened a request for information regarding the use of distributed renewable energy generation to reduce problems associated with transmission and distribution constraints in Massachusetts. The Trust indicated that it may allocate up to \$10,000,000 to support the deployment of clean, distributed resources in ways that would diversify the supply of energy resources to Massachusetts ratepayers. Request for Information at 3.